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TAGS: [EPET](#) [EFIN](#) [ENRG](#) [PREL](#) [EINV](#) [BH](#)
SUBJECT: (U) BELIZE: PM PUSHES WINDFALL PROFITS TAX FOR OIL
COMPANY

REF: BELMOPAN 0320

Classified By: Leonard A. Hill for reason 1.4(b) and (d)

¶1. (C) SUMMARY: A windfall profits tax on oil production is coming to Belize. The only questions are how much of a bite it will take and how much of a disincentive it will be to U.S. investors. While the Prime Minister and government say they are consulting and taking industry concerns into account, the U.S. firm behind the sole oil producer in the country is talking of "de facto nationalization" of its investment. The results of a July 9 stakeholder meeting will indicate how far the government plans to push its tax proposal. END SUMMARY.

¶2. (C) Prime Minister Dean Barrow's government plans to impose a windfall profits tax on the country's sole oil producer, Belize Natural Energy (BNE). The government's rationale for the move is straightforward: high oil and commodity prices have hammered the budget. Barrow told the DCM July 7 that it is "only fair" that the government gets "a little bit more" revenue to compensate for the "battering" that Belize's finances have taken in recent months. In addition to a financial beating, the GOB is taking a political beating after winning office in February on a platform that included promises to reduce energy and food prices.

¶3. (C) A Colorado firm, CHx, is a major investor in BNE and has expressed concern to us over "de facto nationalization" of their investment, should the tax pass as initially drafted. An industry group composed of producer BNE and nearly a dozen other firms with production sharing agreements (but no actual production) agreed on a counter-proposal, which was presented to the government in late June. The GOB is holding a stakeholder meeting for all firms July 9 to offer a counter-counter-proposal. The Prime Minister said he hopes the meeting will lead to "understanding if not agreement" but indicated that he was prepared to meet privately with BNE/CHx and again with the whole group if need be to "reach some kind of consensus."

¶4. (C) Separately, former PM Manuel Esquivel, currently a senior adviser to Barrow and the government, told us that he expected the July 9 meeting would be conclusive and there would be no further talks with industry. He reiterated a point PM Barrow made, that the GOB was not trying to act unilaterally but had in fact consulted with all industry players and would take their concerns into account. That being said, Esquivel noted, no one would ever be completely happy having additional taxation imposed on them, but the government's finances demanded that action be taken. Asked about the timing of legislation -- CHx had been telling us

and others in Washington that the tax would be approved as early as July 8 -- Esquivel said the government had hoped to have a draft by August 1 but that that date would likely slip further. He said that the PM's commitment to a transparent process of consultations had slowed things down, as had the nature of the industry, where a "one size fits all" policy was hard to adopt since there was at present only one producing firm to which the tax would apply.

15. (C) Given their diverse interests and significantly differing levels of current investment, industry players did a remarkable job of forming a united front to respond to the proposal. The industry as a group did not engage much when the previous government imposed a retroactive change to income taxes on BNE (ref), since no other firms were producing and had no income to tax. There does seem to be a growing level of awareness in the industry that, although any tax changes will only hit BNE for now, they could make the climate so unfavorable to producers that firms may be inclined to walk away from their production sharing agreements.

16. (C) Industry concerns with the government's original proposal are many, and focus on several points:

- a threshold level of US\$65 a barrel;
- the tax reaches back to the first dollar of production, rather than starting with production over the threshold;
- the tax ignores exploration and production cost recovery;
- the tax applies regardless of whether or not production

is hedged at a lower level, so BNE could potentially be taxed as if it were receiving US\$140/bbl for oil that it had in fact been hedged previously at US\$80. (COMMENT: For CHx this is a major issue, since its bankers require hedging of 50% of production as a condition for receiving loans. END COMMENT.)

17. (C) Throughout the various discussions of changing tax regimes for the oil industry in Belize, the Embassy has consistently urged both the previous and current governments to consider the long-term implications for investment. Both the energy sector and the tourism industry are heavily dependent on U.S. investors, and anything that undermines their confidence could have a significant impact on the two sectors of the economy that generate the most foreign exchange. We have made our points privately at all levels of the government, and the Ambassador referred publicly to the need to maintain a transparent and predictable investment climate in his July 4 remarks. The DCM raised the shifting taxation problem with the Prime Minister July 7 and with Esquivel July 8, and we have gone to bat for BNE -- as well as other U.S. investors -- numerous times on other issues in the past. We are generally satisfied that the firm has been a good corporate citizen. However, its management has at times appeared to operate on the assumption that it is easier to ask forgiveness than permission, which has created a perception with some that the firm is arrogant and flouts the rules. The PM has told us on a couple of occasions that BNE's past behavior has caused some of its current troubles.

18. (C) COMMENT: At the end of the day, the GOB is going to hike taxes on the oil sector. BNE and CHx have said privately they could live with some changes, but what they want in return for concessions now is a guarantee that this is the last new tax burden they will face. We continue to advocate for a transparent and predictable investment environment which benefits Belize and U.S. investors. END COMMENT.

HILL